

APPROVED BY COUNCIL ON JUNE 19, 2008

**ECONOMIC DEVELOPMENT ADVISORY COUNCIL MEETING
MARCH 5, 2008
STATE CAPITAL BUILDING - ROOM 172
HELENA, MT**

COUNCIL MEMBERS PRESENT:

Evan Barrett, Chair	Corlene Martin
Jim Atchison	Anthony Preite
Kathy Bailey	Tony Rudbach
Sheila Hogan	Jim Smitham
Representative Roger Koopman	Senator Trudi Schmidt
Elizabeth Marchi	Representative Dan Villa

COUNCIL MEMBERS ABSENT:

Senator Jerry Black	Estelle Tafoya
Jim Lee	Linda Twitchell
Joe Menicucci	Paul Tuss
Richard Sangray	

DEPARTMENT STAFF PRESENT:

Mark Bisom	Gary Morehouse
Linda Brander	Quinn Ness
Dave Desch	Andy Poole
Gail Gallik	Marty Tuttle
Bill Hoffman	Fran Viereck
Susan Jensen	Janice Wannebo
Carolyn Jones	

GUESTS:

John Balsam, Contractor, Montana Technology Innovation Partnership Program (MTIP)
Ingrid Childress, Workforce Services Division, Department of Labor & Industry
Jim Davison, Chairman, Headwater's RC& D Area, Inc.
Andrew Geiger, Legislative Services Division
Brian Gion, CEO, Montana Cooperative Development Center
Sheli Jacoby, Loan Officer, Montana Business Assistance Connection
Pam Joehler, Legislative Fiscal Division
Michelle Johnston, District Director, SBA's Montana District Office
Josh Kellar, Coordinator, Northern Rocky Mountain RC & D
Terry Myhre, Executive Director, Montana Business Assistance Connection
Darrell Ruel, S.A.M.
Stacey Scott, Montana Manufacturing Extension Center
Gary Wright, Statewide Workforce Programs & Oversight Bureau, Department of Labor & Industry

Chairman Barrett began the meeting with Council introductions followed by introductions of the audience.

APPROVED BY COUNCIL ON JUNE 19, 2008

Chairman Barrett congratulated Jim Smitham on the recent announcement of a German company, called Fuhrländer, which is planning to build a \$25 million wind turbine manufacturing plant near Butte in the fall of 2008 that will employ approximately 150 people. Chairman Barrett added this is a nice “signature piece” for the State of Montana showing if everyone comes together including the Legislature by passing appropriate incentives, good things can happen.

APPROVAL OF MINUTES FROM PREVIOUS MEETING

Chairman Barrett asked the Council members if they have reviewed the minutes from the September 12, 2007 meeting and asked if there were any changes? With no comments from the Council, Rudbach **MOVED** to approve the minutes as submitted. Bailey **SECONDS** the motion. **THE MOTION PASSED UNANIMOUSLY.**

TREASURE COMMUNITES

Chairman Barrett explained that during the last meeting this Council discussed the history of the Treasure Communities Program and recommended the Department of Commerce conduct a survey of the stakeholders on the subject of the Treasure Communities Program and report back to this Council with recommendations. This program previously existed with \$425,000 funding which is now allocated to the Certified Regional Development Corporations (CRDCs). The 2003 Legislature created the CRDC Program but kept a reference in the statute to Treasure Communities which needed to work within the CRDC structure. To date, the Treasure Communities Program has not been fleshed out and there are no funds for it and no requirements established by the department.

Ness explained the Treasure Communities survey was created by the Department and distributed on February 22, 2008 by the Montana Economic Developer's Association (MEDA) electronically with a deadline of March 28, 2008 to respond. Ness distributed to the Council members for their reference a handout entitled “Treasure Communities Program Survey-February 21, 2008” that summarized the program's history, statutory background and the seven (7) questions concerning how the Treasure Communities Program could be structured. Ness explained the next step will be to compile the results and distribute the results to the Council prior to the next meeting for their review. The Department will provide possible recommendations for the Council to consider during the next meeting. Barrett added that if the Council believes other questions should be added to the survey to contact him or the Department of Commerce staff.

GOVERNOR'S ECONOMIC DEVELOPMENT INITIATIVES

Director Preite began by stating there are a number of programs that are either scheduled to sunset or are considered a “one-time only” program and we need to work diligently to provide the necessary information to the Administration and Legislature in hopes of continuing these valuable programs that serve a useful purpose to the people of Montana.

Director Preite distributed a handout entitled “WTG Master Tracking Sheet” containing a list of contracts and funds awarded on the Workforce Training Grant Program as an example of what has been accomplished. To date, over \$6 million has been awarded with a leverage/match of over \$104 million. Director Preite stated the private sector

APPROVED BY COUNCIL ON JUNE 19, 2008

drives the economy and Commerce becomes involved only when there is a gap that needs to be filled to accomplish the creation of new jobs in Montana.

Chairman Barrett reported there continues to be activity in the energy development field. The wind turbine manufacturing plant (mentioned earlier) is a prime example of putting the “clean and green” energy incentives together to ensure it includes manufacturing. We not only want to be producing the energy but also participate on the “front end” of these processes.

The Montana/Alberta Tie Line (MATL) is a privately funded or “merchant” transmission line between Lethbridge, Alberta and Great Falls and is in the final draft of the Environmental Impact Study (EIS) stage with the Department of Energy with possible construction beginning the summer of 2008. It will be the first-ever merchant power transmission line built between the U.S. and Canada.

The McCormick Ranch wind farm (between Shelby & Cut Bank) is starting Phase 1 to hire workers. This wind farm will initially generate 210 Mw and later (upon approval of MATL) will add another 300 Mw, which dwarfs the wind farm in Judith Gap, which is 135 megawatts. Chairman Barrett reported the Energy Infrastructure and Promotion Division reported there are roughly 50 wind farm projects currently in different levels of discussion. The Northern Lights and MISTI lines continue to move forward. Chairman Barrett congratulated Representative Villa and Jim Davison on the announcement that Northwestern Energy plans to put a natural gas “peaking plant” in the Anaconda area.

Chairman Barrett stated another issue important to economic development is Tax Increment Financing (TIF). Since the last meeting an advisory group has been working on draft rules prepared to open the doors for everyone to use the tool equally. They do anticipate more TIF legislation during the next session. **Bailey asked if the Council will have an opportunity to discuss the Tax Increment Financing (TIF) during the next meeting. It is a very important tool for many practitioners and would like to discuss this further.**

Chairman Barrett continued to explain that Montana ranks 9th in overall business tax climate by the Tax Foundation. Montana’s growth over the last three years ranks #7 in the nation. Our unemployment rate continues to be at record lows however we are not the lowest in the nation. The annual average employment numbers should be released sometime this summer. Barrett also reported the Business Facility Magazine ranked Montana #1 for business climate in the nation. The national economy seems to be moving closer to a recession triggered by many factors but particularly by the housing sector and the sub-prime mortgage crises which has rippled across the nation’s economy. Montana is not immune to the housing crisis but we don’t anticipate the impact to be too hard mainly because Montana was not deeply into sub-prime lending activities. Montana’s economy does reflect the national economy and the Governor has indicated we need to anticipate a slow down in our economy this year and we want to buttress against that as best we can with good aggressive programs and economic development so we get more than our share of growth. Montana historically has gone into a recession slower than the rest of the nation but sometimes Montana comes out slower as well. Montana’s old “resource” economy still continues to help us with

APPROVED BY COUNCIL ON JUNE 19, 2008

copper, coal, and wheat which are at an all time high. As we see the growth in the “new” economy (research and the information age), we are seeing that the “old” economy is sustaining Montana during the national economic slow down. Having a diverse economy is strength. We need to continue to invest in the programs that help grow Montana’s economy. The time for us to be aggressive is when the economy is good not when it starts sliding.

Chairman Barrett added the 2009 Executive Planning Process (EPP) is underway whereby all state agencies submit their budget for the next biennium to the Budget Office for consideration.

Senator Schmidt asked Barrett if the new TIF (Tax Increment Financing) bill will be drafted similar version to HB 832 from last session. Chairman Barrett explained the idea is to come back with something substantially like that. There is an advisory group to the Governor’s Office that is very familiar with tax increment financing and they anticipate the bill will be 90-95% the same with slight changes. The Department of Revenue has been working on administrative rule changes mainly because they have seen an uneven use of this tool. The smaller counties don’t have their own attorneys or the staff large enough to keep abreast of the tax increment procedures which have been causing delays for those counties.

Senator Schmidt asked Preite what the Work Force Training Grant Program will be requesting during the next Legislature. Director Preite explained the budget proposed will include, at a minimum, the existing level of funding which is \$4 million per year one-time only (OTO) money with the possibility of asking for more since it has been a successful program. Chairman Barrett added that a pilot project in the incumbent worker training program in the Billings region is currently going on and this may part of the discussion as well.

2009 LEGISLATIVE INITIATIVES

Chairman Barrett distributed “The 2010 Coalition Report – February 2008 – Reinvesting in Montana’s Economic Future” in cooperation with the Montana Economic Developers’ Association (MEDA) that outlines the programs that will be discussed during the meeting. Prior to inclusion in the report, each program (scheduled to sunset in 2010) went through a review by a MEDA subcommittee to evaluate the economic development programs, determine which should be reauthorized, what the funding levels should be and what modifications (if any) should be made for program improvement. The report was assembled as a result of the committee’s study and demonstrates each program’s strengths, purpose and success. MEDA has endorsed the continuation of these programs. The report should enable Council members to evaluate each program and decide whether or not you want to provide advice on their continuation and in what form.

Andy Poole, Deputy Director, Department of Commerce, briefly explained the report summarizes the various programs that were funded back in 1999 by the Legislature as a result of strategic planning for the State of Montana under Governor Racicot. The inside cover explains the legislative history of the programs starting in 1999 with the passage of HB 260 but it was funded by an unconstitutional methodology that was

rejected by the Montana Supreme Court. During the 2000 Special Session, funds were appropriated from a percentage of the proceeds from the Coal Tax Trust Fund that would otherwise go to the General Fund established through the good-faith efforts of the 56th Montana Legislature. That legislation made these programs effective in statute for a period of five (5) years with an initial sunset of 2005. In 2003, the Legislature took under consideration a bill that would extend the sunset until 2010 which passed by a significant margin. The programs are in effect until June 30, 2010. At MEDA's February 2008 meeting the membership decided to endorse the continuation of these programs and called for the elimination of the 2010 sunset. The Department of Commerce feels it is important, given the role of the Economic Development Advisory Council to advise the Governor on economic development issues, that this Council should "weigh-in" on whether these programs should be continued and if so, at what level. Today's agenda will provide the Council with an overview of each program that will enable members to make an informed decision.

Jim Davison, Chair of the MEDA Legislative subcommittee that completed the above report, added the subcommittee looked at the programs involved and whether they really are effective programs, what investment has been made and has the investment been worthwhile showing a return back to the state.

Small Business Development Centers

Josh Kellar, Coordinator, Northern Rocky Mountain Resource Conservation & Development, presented a slide presentation highlighting local businesses in the Bozeman area and providing statistical information on the Small Business Development Centers (SBDCs) and the services they offer across the state. Northern Rocky Mountain RC&D has hosted the Bozeman Small Business Development Center (SBDC) for the past 10 months but their SBDC Counselor has over 30 years of economic development experience. The state has 10 SBDC host organizations located in: Billings, Butte, Great Falls, Helena, Missoula, Bozeman, Colstrip, Havre, Kalispell and Wolf Point. The SBDCs assist businesses and entrepreneurs with starting, running, expanding, saving or selling their business. The SBDCs are integrated with other programs with the capacity to transition clients to other programs as they grow their business. The state provides \$125,000 per year to fund the 10 SBDCs showing a return on investment of \$5 for every \$1. The Montana SBDC network provides professional counseling and training to over 4,500 individuals per year, resulting in the creation of 414 FTEs and the retention of 434 FTEs in Montana. Kellar views the SBDC program as a risk reduction business whereby they assist Montana entrepreneurs in making smart, informed and well researched business decisions. A lot of potential business owners attend the SBDC trainings and decided it is not the right time or place for them to go into business. The SBDC program keeps very detailed records on the technical assistance they provide to clients which are gathered quarterly by the SBDC Lead Center. The critical component of the SBDC Program is an "experienced" business advisor. From 2004-2006 the SBDC Program had a 40% turnover (per year) of the business advisors/counselor which was directly related to the program's inability to adequately fund the counselor positions.

Kellar also distributed a letter sent to Director Preite and David Ewer, the Governor's Budget & Planning Office, dated 2/4/08 requesting a funding increase of \$375,000 for

APPROVED BY COUNCIL ON JUNE 19, 2008

the 2009-2010 Biennium and the removal of the sunset for the SBDC Program. The funding increase would match SBA's federal funding \$1 for \$1 with state funds. Kellar reported there are many areas in the state where small business is booming and the SBDC services are in high demand which makes it difficult for the counselors to ensure everyone is receiving service.

Marchi asked if they partner with others to provide training and technical assistance. Kellar reported their SBDC Counselor is housed within the Bozeman Chamber of Commerce. S.C.O.R.E. and SBA also provide the training and technical assistance along with three trained Northern Rocky Mountain staff. They also plan to draw from private industry to provide the FastTrac curriculum which is a practical, hands-on business development program designed to help entrepreneurs sharpen the skills needed to create, manage and grow a successful business. FastTrac participants work on their own business ideas throughout the course - moving their ventures to reality or new levels of growth. Kellar also indicated they have a pilot program with Montana State University Extension currently to work with the College of Business opportunities.

Representative Koopman clarified that 90% of the business that fail usually fail within the first two years. Koopman asked if there are times when professionals in the private sector perhaps lose business due to the services the CRDC provides and does he have any data that compares the success of the consulting provided by the SBDC verses the private sector consulting? Kellar acknowledged their organization only has 1 and a quarter position that actually is dedicated to the SBDC Program. The services that Northern Rocky Mountain offers is mainly guidance on their business plan and counsel them on getting the plan completed. They do not have the time to actually help them write their business plans. Kellar is not aware of any competition issues in his area and he is always looking for consultants that can provide specialized services to refer their clients to. Koopman asked about the previous SBDC host organization called Prospera and wondered if there are duplication of services between Prospera and Rocky Mountain. Kellar reported they are a regional organization and not specific to Bozeman and they rely on the local partners to help refer clients to them. Prospera has a program they send clients to for government contracting and both agencies refer clients to each other.

Bailey commented that Snowy Mountain Development Corporation in Lewistown is served on an "outreach" basis and only receives four (4) hours of SBDC counseling per month. The Lewistown area had over 64 businesses that were not able to receive services from the SBDC during this past year. With only ten (10) SBDC sub-centers currently, did the SBDC Program take into consideration the need for additional SBDC sub-centers? Kellar reported the recommendation came from a collaborative effort of the 10 centers but he does not feel he can adequately address her question. Barrett reported an SBDC Structure Committee will be meeting with the Budget Director to discuss these SBDC issues. The SBDC funding has not changed since 2000. Smitham added that the SBDC are invaluable to the economic development organizations throughout Montana.

Marchi indicated it would be help visually if a statewide map could be created that overlies the SBDC, MBDC, CRDC, EDA, RC&D, RDO and the extension programs at

the university to see how they align. Barrett pointed out that Montana is one of the few states that the SBDC is not located at the university system.

Small Business Innovative Research Program

John Balsam, Counselor for the Montana Technology Innovation Partnership (MTIP) Program, explained the MTIP program grew out of the earlier program entitled the Montana Small Business Innovative Research (SBIR) Outreach Program and is designed for “early stage” research capital that is not available any other place. MTIP provides individualized coaching and workshops to a broad array of clients including independent inventors, technology entrepreneurs, established technology-based businesses, university researchers and members of the state’s economic development community. This program helps them craft proposals and be competitive in the targeted programs they are looking at and help them understand and apply the complexities related to these programs (i.e. intellectual property, government accounting, contract management with the federal government, and the commercialization process). This program does not provide the same services as an SBDC does. It is designed for a narrow band of businesses that are technology-based entrepreneurs, businesses and university researchers. Up to \$1 million is available to each of these companies per technology if they are interested in pursuing the funds. A large majority of these funds like SBIR, STTR, etc. are monies that do not need to be matched nor repaid. It is new money into the state to support new and existing jobs that are high paying, it can also be used to support business infrastructure and operations and match other funding sources. A State Technology Partnership Committee comprised of numerous individuals has been formed. Back in 1999, MTIP was granted \$50,000 in general funds and over the years have managed to leverage those funds into nearly \$500,000 in additional federal funding to continue the operation and administration of the program. More importantly, this program has contributed significantly to helping Montana companies receive awards from \$10-\$15 million in federal, early-stage, research and development funds annually. This does not include the company revenues and new jobs created when technologies successfully commercialize and begin making sales. MTIP strongly recommends that the Economic Development Advisory Council fight not only to eliminate the sunset clause but also to increase the funding for the program(s) presented today. Failure to fund MTIP beyond the basic staffing funds will basically eliminate the program because it will eliminate the one-on-one coaching and workshops that are so vital to the success of this program. MTIP is the only state program that serves all innovators, technology entrepreneurs, and technology companies.

Rudbach explained that Montana ranks in the top 4 states (in a per capita basis) for receiving SBIR funds. Rudbach hopes the state can create a pool of money to assist innovators with patent costs which can be very costly and currently do not exist.

Representative Koopman asked if this program keeps statistics on what percent of the time the projects are being funded by these grants go to market or are commercialized. Balsam indicated they do not currently generate those statistics but in the future it will be part of their strategic work plan and by next year they should have those statistics.

Senator Schmidt asked for clarification and is interested in the patent funding issue and wonders what needs to happen and what is involved. Chairman Barrett indicated, to his

knowledge, there are no patent-oriented funds offered by the State of Montana; however, there are places you can go to research patents. Chairman Barrett pointed out that some evaluations of Montana's economy, where state patents were evaluated, Montana ranked exceedingly low in this area. Chairman Barrett clarified that SBIR & Small Business Technology Transfer (STTR) monies are set-aside monies at the federal level for small businesses and EPSCoR is money set aside for states that have reduced research funding compared to other states. **Chairman Barrett asked that Commerce staff provide recommendations on patent financing at the next meeting for this Council's consideration.**

Certified Regional Development Corporations

Jim Davison, Vice-Chairman, Headwaters RC & D Area, Inc., presented on behalf of the Certified Regional Development Corporation (CRDC) program and distributed a CRDC map for the Council's reference. Barrett reminded the Council the CRDC program is the 2003 Legislative successor to the Certified Communities Program under the Martz Administration. Davison reported the driver behind the CRDCs is to provide a cohesive organizational network in a region that can develop capacity of staff and provide outreach in the region for the different resource programs in order for businesses to develop. Headwater's is a RC&D, EDA District, SBDC, offers loan and technical assistance and is a "one-stop" center. They partner with other private and public sector providers to provide access to bankers, realtors, trainers, attorneys, accountants and consultants to give business the necessary resources they need to succeed. Their board consists of members from every county and local community in their region. Headwater's is committed to educating their staff to make sure they have good personnel that can adequately deliver these programs. For the past two years, Headwater's has been working with MSU on a business attraction program to look at what their resources are and what businesses are out there that would want to utilize those resources and "marry" those to narrow down specific type industries to attract to their region. For the next year, they are going to take their board, meetings and staff out to the different communities for a day rather than having people always come into Butte for the meetings as a way to continue to develop relationships with the local resource providers to see what their problems are and see how they can assist them. These efforts have been very successful. Butte Local Development Corporation, as a small agency, can not afford to provide the service professional services that the CRDC can deliver.

Senator Schmidt referred to the 2010 Coalition Report (page 4) regarding the CRDC program and noted that current level funding is at \$425,000/year but there is no Proposed Funding amount suggested. Davison indicated that MEDA is looking at the current level of funding and will certainly discuss an inflationary increase to help out the program. The funding level has not changed for this program since it began.

Representative Koopman asked if Headwater's applies the principles of a business plan to their organization and do they set goals and objectives and establish ways to measure their success and weaknesses. Davison stated that Headwater's is a business and they review their strategic plan both short-term (1 year) and long-term (5 year) goals to determine the use of money, the most beneficial resources to offer and adequate staffing.

APPROVED BY COUNCIL ON JUNE 19, 2008

Marchi asked the Legislators in attendance if we should try really hard to do some standardizing of the reporting metrics (i.e. split new & retained employees, split federal versus private). Senator Schmidt indicated that she believes they are currently in the process of actually doing that. Bailey, like Marchi, also believes in standardize reporting and in some cases numbers overlap and in other cases they do not. There are SBDCs located within the CRDCs and programs should be cautious how they count certain numbers.

Director Preite added these local development organizations/corporations are a business and if they are not run like a business they would not stay "in business". The Economic Development Districts (EDDs) and CRDCs are multi-county organizations and local development organizations are primarily one county. The CRDC regions are only in their third to fourth year and some are fairly new organizations with very diverse services. Some are struggling and need our assistance to enable them to become more experienced organizations.

Chairman Barrett stated there is "layering" of services but overall there is not a duplication of services. What the CRDCs accomplish is to create a critical mass of expert staff to assist a businesses' growth, particularly in the small business sector. Chairman Barrett indicated the complexity of all these different organizations may appear to be confusing and duplicative but each one provides a specialized service.

Chairman Barrett reminded the Council that funding has not changed for most of these programs since 1999 and a straight inflation adjustment of the value would be 33% increase. Essentially each one of these programs would need 33% more to have the same buying power or production power as they did in 1999. If they are statutorily appropriated the funding is set at a fixed amount and does not increase. If the programs would have been placed in the base funding and determined to be a regular appropriation, determined to have validity and has gone through present law adjustments (generally inflationary adjustments) their funding would have increased.

Poole distributed copies of the January 2006 SBDC Legislative Performance Audit report for the Council's reference. The SBDC Legislative Audit findings reported that the SBDCs did provide value to their clients. Reports indicate those receiving SBDC services got increased sales, greater employment, etc. The audit also looked at if the SBDC competes with the private sector relative to providing consulting services and the audit showed it did not. The audit also states that the SBDC program was not able to provide certain services or meet the demands around the state. The faults had more to do with the allocation of resources and the amount of resources that were available to the program to provide services. Overall the Legislative Audit found the SBDC program to be valuable, providing good services to business in Montana, benefit the State of Montana but it shortcoming had to do with the amount of resource invested in the program.

Representative Koopman asked Chairman Barrett for clarification as to whether there was or was not duplication among these programs following the above comment and wonders if it is a legitimate function of this advisory council to investigate this further to

APPROVED BY COUNCIL ON JUNE 19, 2008

see if there is some duplication in areas to save money? In Chairman Barrett's opinion, based upon doing this work for 20+ years, there is not a duplication of services but a layering of differential functions or expertise. Director Preite added these organizations provide different services specific to their areas of expertise and stressed there is a lack of resources to do the work that is needed in the field.

Senator Schmidt sits on the Great Falls Development Authority Executive Board and she is amazed how sophisticated that area is and how many programs are available to communities. Cutting the programs that help us compete globally will place Montana behind the rest of the world.

Chairman Barrett congratulated Atchison on the recent announcement of the site selection for the state's backup data center to be located in Miles City.

Chairman Barrett mentioned that Big Sky Airlines had over extended itself in a non-performing situation and has decided to liquidate the airlines. Their essential air service routes were given over to another airline called Great Lakes Airlines but they are currently not able to get enough pilots and planes in place so as of March 9th some areas of Montana may not be serviced by an airline. A lot of Montana communities are looking to find ways for Big Sky employees to purchase the company. The Economic Development Office, Commerce and others are working on this extensively including the willingness to put some money towards the business plan development. Director Preite reported that Dick King, President of Missoula Area Economic Development Corporation, solicited economic development corporations across Montana (via the MEDA listserv) asking if they have an interest in utilizing their revolving loan funds as part of financing to support for the employees buy-out of Big Sky Airlines requesting an initial funding of \$200,000 by March 7, 2008.

Export Trade Enhancement

Mark Bisom, Bureau Chief, explained they receive \$300,000 annually for the operation of the state's overseas trade offices as well as to provide technical export and marketing assistance that allows Montana companies to successfully compete in global markets. The Bureau also maintains the Made in Montana Products Directory and oversees the Made In Montana label program. Overseas trade offices are maintained in Taiwan and Japan to promote agriculture, tourism, value added products and higher education opportunities to markets in East Asia. The Bureau also serves as a protocol on international liaison for the Governor's Office and Department of Commerce.

Bisom anticipates another banner year for Montana in agricultural commodity exports with 60% of Montana wheat exported primarily to Asia, Japan, Taiwan, South Korea and the Philippines. Manufactured exports have increased 27% over 2006 ranking Montana the 4th highest annual increase among U.S. states in 2007. Montana still ranks 48 amongst the states for their exports. Almost every state has an office/agency that is responsible for international development.

Bisom reported that tourism is and continues to be a major activity and the bureau considers it a reverse export (foreign dollars spent in the state). Japan has historically been the #1 export destination for U.S. beef. The bureau has been working with the

APPROVED BY COUNCIL ON JUNE 19, 2008

Montana Department of Agriculture and U.S. Meat Export Federation to regain consumer confidence in market share in Japan. The Bureau also has an International Trade Officer that provides consultations and group trainings addressing issues such as market research, export regulations/compliance or import protocols, methods of shipment and how to get paid.

Representative Koopman asked how the falling U.S. dollar is helping with Montana exports. Bisom indicated that certainly that has helped U.S. exports because our products are cheaper to purchase and we are seeing increases in the manufactured products.

Marchi commended the Bureau on how much feedback she has received on the trade show assistance offered through the program. Participants stressed the importance that was beyond their scope of day-to-day business which has been a huge success. Bisom reported they do have funds set aside as part of their marketing initiative to assist companies to attend, for the first time, a trade show outside of Montana that they have not attended previously.

Senator Schmidt stated she attended the Made In Montana Trade show in Great Falls last weekend and everyone she spoke to were so appreciative of having the opportunity to showcase their product(s), both wholesale and retail, and wanted to make sure the Legislators knew how important it was to them and their business. Chairman Barrett pointed out that The Made in Montana Trade Show was cancelled at the end of the previous administration and Director Preite and the Governor and others re-instated it.

Representative Villa asked if there is any area(s) where additional dollars could be leveraged within the program to increase outputs for Montana. Bisom thought more emphasis on Canada with possibly a Trade Officer to address the trade with Canada specifically. Bisom admitted that there use to be a Canadian Trade Officer but it was eliminated under the Racicot Administration. Canada is still Montana's #1 trading partner.

Board of Research and Commercialization Technology

Dave Desch, Executive Director, explained the Board is comprised of six people, two (2) appointed by the Governor and four (4) are appointed by the Legislative Leadership. They make decisions regarding the funding of research projects in the state that have commercial potential. The program has existed since 2000 and has a statutory appropriation of \$3.65 million annually leaving \$3.5 million per year for projects. Desch distributed a handout entitled "Summary of Projects Funded March 2008" showing 446 applications have been received in the program with 127 projects actually funded. The handout also contains a brief description of the companies and their funded projects. Follow-on funding (dollars that have been attracted by these projects after the Board's involvement) has been \$171 million of mainly federal dollars coming into the state and a lot is spent in the state.

Representative Koopman asked how they determine the commercial potential of a grant application. Desch indicated the applicant is required to address that topic in their application by telling the Board what it is they want to do with the research, what kind of

product will be developed, how long will it take and the market for the product. Barrett asked how to characterize the expenditure of money in terms of research that did not lead to commercialization compared to research that did lead to commercialization. Desch indicated the Board has concluded that funding research projects with commercial potential is the most efficient use of the funds. This also sends a clear message to the applicant that to have a successful application; it has to be written in terms of a research project with commercial potential. If the applicant is a company and the company has their own resources involved in the project they believe this is a feasible project since they have invested their own funds with the intent of the project heading towards commercialization of some kind.

Desch stated the program began with \$4.85 million and eventually it was reduced to \$3.65 million. Barrett asked if there is statistics that ranks or compares each state in terms of their commitment to research. Desch is unaware of those stats. **Chairman Barrett asked Desch to investigate those stats and provide those to this Council.** Marchi indicated the National Association of Seed & Venture Funds has a study of several different state programs that deal with early-stage venture capital as well as commercialization. Chairman Barrett is interested in the commitment of state money. Director Preite stated that he is not directly involved in the research and commercialization awards but he believes the more commercialization that we can get the more jobs we can create the more it drives the economy. Director Preite believes this program should “tilt” more towards commercialization then research. Chairman Barrett stated in the beginning this program was exclusively for public or “non-profit” research entities and subsequently the Legislature opened the door to “for-profit” research centers to qualify. Chairman Barrett asked about the targeted amounts for agriculture and other uses. Desch reported that since the program started there was a statutory requirement of 20% of the dollars the Board spends is allotted towards production and agriculture projects. During the last session, HB 715 added language that requires an additional 30% towards clean coal or renewable energy projects. Desch indicated they have never had problems reaching the 20% requirement on agriculture in the past and the new 30% requirement is too new to know how many will apply.

Rudbach clarified that no state monies are allocated for patent development unless it was included and approved in their Montana Board Research & Commercialization Technology application.

Growth Thru Agriculture

Collin Watters, Manager, explained the Growth Thru Agriculture Program was established by the 1987 Legislature and is administered by the Agriculture Development Council comprised of seven members that are appointed by the Governor. The grants and loans are available to assist agriculture-related businesses with start-up or expansion. A portion of the funding for Growth Thru Ag (GTA) goes towards the International Trade Bureau located in Commerce. Watters distributed a handout entitled “The Montana Growth Through Agriculture Program” giving an overview of the program followed by statistics and graphs. There is a \$50,000 limit per round and total funding per project may not exceed \$150,000 with a minimum of one-to-one matching funds required. Applicants are strongly encouraged to contact their local Regional

APPROVED BY COUNCIL ON JUNE 19, 2008

Development Officer and CRDC for technical and financial assistance with the application. Funding sources for this program come from the Coal Severance Tax Shared Account, Seed Capital Account and the Coal Severance Tax Permanent Fund. If inflation is considered at 30% since 2001, and the fact that this program's funding has not changed since 1987, they will also be addressing this during the next Legislative session. Watters attributes the 2006 decline in the number of applicants due getting the clients more involved with the local development agencies to think projects through thereby receiving much higher quality applications.

Marchi asked how the Return on Investment (ROI) was calculated. Watters indicated the ROI is synonymous to the loans.

Representative Villa asked why the big decline in FY 03 on the chart. Watters indicated it was drought related. When farmers are trying to watch their spending, a new ag. venture is not a good idea.

Representative Koopman asked why loans are being requested through his agency when convention financing is available or have they been rejected by the bank. Watters indicated a lot of these ventures are kind of risky and to extend their credit even more with a local bank is not practical for the farmer. The agency provides flexible-term financing that bank's do not offer. Representative Koopman also asked if there is data on the delinquency and default rates of the loans. Watters does not have that data with him but will provide that data for this Council. Watters added he has noticed the delinquency rate is dropping due to his frequent contact with the clients. Representative Koopman asked how the FTE are reported (i.e. self reporting, do they have to be employed for a certain amount of time, has the person moved from one job to another, etc.) in other words how is the new FTE is calculated verses an employee that is just transferring jobs. Watters indicated the last survey was self-reported. **Chairman Barrett requested the data on default & delinquency rates and how the FTEs are calculated that Representative Koopman requested be sent to the Department of Commerce for distribution to this Council. Chairman Barrett asked Poole to check out what the original appropriation for Growth Through Agriculture was, which he believes was lower then what is presented.** He said that Senator Cobb had made a motion in 2001 to take a portion of the marketing and recruitment monies allocated to Commerce and reallocated those to Growth Through Agriculture. Chairman Barrett wants to ensure the 2010 Coalition Report, being prepared by MEDA, contains accurate numbers for the Research & Commercialization (which has had a reduced amount) and also notes the changes that occurred in Growth Through Agriculture Program in order to provide an accurate historical perspective in the report.

Montana Cooperative Development Center

Brian Gion, CEO, distributed the program's brochure, map and a handout summarizing the impact the 24 cooperatives have had on local projects. This program began in 1999 and has 38 active projects of which 13 of them are in early stages of development and 13 projects are currently on hold. The current level of funding they receive to administer the program is \$65,000 annually and they have leveraged over \$3.5 million with those funds. They are working with MEDA to determine exactly what an increase in funding to this program should be. They help them develop steering committees to determine if a

business should be a cooperative, is it a good business idea and feasible. They do not actually conduct the feasibility or marketing studies due to a potential conflict of interest. They are the only statewide resource for cooperative development that works with new and existing co-ops and other groups to evaluate co-op business models and strategies to meet their objectives. They are a non-profit corporation with financial assistance from state and federal sources allowing MCDC to offer services at little or no cost to project groups.

Senator Schmidt referenced the map showing the network, projects, counties affected by the projects and proposed TA sites asking where each project listed on the summary is located. **Gion named each location to the Council but was also requested to provide a complete list of all their projects, the location and a summary of each to the Department of Commerce for distribution to this Council.**

Representative Koopman asked about the process to create a cooperative. Gion generally refers the project to the local development organization and involves bankers and others in the community to discuss the feasibility and option of the business as a co-op.

Montana Manufacturing Extension Center

Stacey Scott, Business Manager of the Program at Montana State University-Bozeman, stated there are over 3,600 manufacturers in Montana located in every county. They have nine (9) industrial and mechanical engineers located across the state. They assist manufacturers in adopting new, more advanced manufacturing technology, techniques, and business practices appropriate to increase production efficiencies, reduce costs, increased sales, new product development designed for manufacturability. They rely heavily and work closely with the other programs previously discussed. Their current level of funding is \$200,000 per year and they leverage it to receive federal funds from various resources. Scott distributed a handout on how manufacturing in Montana produces approximately \$8 billion in output annually by more 3,674 companies directly employing 24,400 employees with an annual average wage of \$37,000 per worker. They are experiencing more demand for their services then they can meet.

Smitham commented that the feedback they receive from the businesses in the Butte area on the services they receive from the Manufacturing Extension Center is invaluable. The manufacturing seminars teach ways to keep costs down and production high. Bailey also commented on their services they receive in the Lewistown area and local manufacturers feel the fees are worth-while and have made a significant difference in the businesses that were potentially at risk of closing their doors.

Consideration of Action Related to Sunset Programs

Chairman Barrett stated the purpose of these program briefings was to expose the Council members to the issues these programs face because the Council provides advice to the Administration on economic issues. The current Administration has an interest in the extension of these programs and believes they are valuable. Chairman Barrett stated the following options for these programs are:

1. To continue these as statutory appropriations;

APPROVED BY COUNCIL ON JUNE 19, 2008

2. To continue the programs as general fund appropriations;
3. To discontinue funding the programs;
4. To add a fixed amount as an adjustment for inflation losses over the last nine years; and
5. To index program funding for future inflationary increases.

Chairman Barrett asked for this Council's recommendations on these programs.

Smitham **MOVES** to recommend the continuation of all the programs mentioned above, keeping them as a statutory appropriation and removal of the sunset clause. Rudbach **SECONDS** the motion.

Chairman Barrett **CALLED FOR DISCUSSION** on the motion. Rudbach asked if the recommended funding should be placed in the motion. Smitham requested to take this motion one step at a time possibly making a series of motions separating the issues to ensure everything is clarified for this Council.

Discussion ensued with Marchi who compares the relative funding levels for one program to another making it hard to be supportive of funding levels where more funds are going into one program compared to another and believes more funds are needed across in all of these programs.

Representative Koopman is opposed to this motion. If this motion fails a substitute motion will undoubtedly be made to leave some sunset in for the future. A sunset does allow the Legislature the opportunity to step back and take a look at each of these programs to determine if it has a positive function. Each program should stand on its own merit. If we pass a motion to continue to fund these programs, at the very least, we should not take out the sunset clause. Chairman Barrett asked Representative Koopman for clarification. Since the sunset is in place, which means they terminate at the end of the biennium, is he suggesting replacing the old sunset date with a new sunset date. Representative Koopman thought a better motion would be to recommend a new sunset date if these programs are going to be appropriated again but not every Legislative year. Chairman Barrett indicated there was an initial sunset for these programs for five (5) years and then it was extended to sunset in 2010. Chairman Barrett believes that if the sunset comes up every 2-3 years the funding should just as well be a general fund appropriation.

Representative Koopman **MOVES TO AMEND THE MOTION** to also include a sunset date for 6 years. Marchi **SECONDS** the motion.

Chairman Barrett **CALLED FOR DISCUSSION ON THE AMENDED MOTION** stating that if this motion fails we revert to the previous motion for a vote.

Representative Villa **OPPOSES** amending the original motion. As a "junior" practitioner in Anaconda, these programs have proven to be an absolute vital part of Montana's economic development strategy. He utilized the SBDC program years ago to launch his business. With the thousands of bills the Legislature sees every session, the sunset can sneak up on you and he believes we are wasting tax payer dollars by re-visiting

APPROVED BY COUNCIL ON JUNE 19, 2008

these programs that have proven their worth. Sunsets put the programs and practitioners into a quandary every four or so years. Having security in these programs contributes to their efficiencies and efficient utilization. **Representative Villa urges opposition to this and recommends a vote on the original motion.** Smitham agrees with Representative Villa's comments. The sunset does take away from the effectiveness of these programs because the managers are constantly defending their programs and fighting for continued funding.

Marchi re-iterated it has been 9 years (in some cases 16 years) since we "retooled" these programs, Montana's economy has changed, and some programs previously created may have lost relevancy in today's economy.

Senator Schmidt clarified that it is really up to the Appropriations Subcommittee as to how much funding they will receive. The funding can be decided each session so she recommends continuing these worth-while programs but whether they continue is up to the legislative appropriations subcommittee and is considered separate from HB 2. Therefore every two years the Legislature would be reviewing and fine tuning these programs. Chairman Barrett points out that this advice from the Council is for the Administration not the Legislature and the Administration may also want to "retool" these programs. Representative Koopman believes his amendment to the motion will strengthen the strong programs. Providing security to these programs so they can have predictability; yet we work with private businesses and no private business has a guaranteed existence. He believes these programs should be analyzed on each program's own individual merits. There may be some that have "out lived" their usefulness. By having a funding sunset the programs are strengthened and he believes this is the proper way to approach this issue.

Poole pointed out that statutory appropriations are not reviewed by the Legislature except when modifications are introduced but it is not reviewed every 2 years.

Chairman Barrett **CLOSED THE DISCUSSION AND CALLED FOR A VOTE.** The amendment on the floor is to include a six (6) year sunset. For clarification: if this motion succeeds, then it would be the Council's recommendation. If this motion fails, we revert to the previous motion for further discussion and action.

Bailey asked Chairman Barrett for a point of clarification on potential conflict of interest from the CRDC perspective. Because this is an Advisory vote, are the CRDC representatives that serve on this Council allowed to vote? Chairman Barrett indicated that if they want to declare themselves as having a potential conflict of interest they are welcome to do so but this is not a formal, legal action and as Chairman he would rule that it is ok for them to cast their vote.

Chairman Barrett asked Council members to vote by a show of hands. Two (2) members voted in favor, eight (8) members voted against and two (2) members abstained from voting. THE AMENDMENT TO THE MOTION FAILED.

Chairman Barrett stated the Council now needs to **VOTE** on the **ORIGINAL MOTION** which is to continue the programs with a statutory appropriation and remove the sunset

clause. **Eight (8) members voted in favor of the original motion while two (2) members voted to against the motion and two (2) members abstained from voting. The MOTION PASSED.**

Smitham then **MOVED** to consider increasing the appropriations for each of the programs to catch-up with inflation from the time of inception. After some discussion, Chairman Barrett clarified the motion by stating the motion would be urging the Administration to consider an adjustment to bring the funding level up (30%-33%) as an aggregate growth adjustment but would allow a shifting in the dollar amounts and funding levels that each program would receive and would not necessarily evenly distribute the increased funding. They have actually lost spending power because of inflation. Hogan **SECONDS** the motion.

Chairman Barrett stated that if this Council makes that recommendation to this Administration, it would be interpreted as being a "ceiling" idea. In discussions with the Budget Office everything is subject to available money. This recommendation is just advice for the Governor's Office and it is greatly appreciated.

Chairman Barrett opened the floor for discussion. Senator Schmidt asked what this equates to in dollars. Chairman Barrett indicated the figure is approximately a \$1-2 million increase.

Representative Koopman again stated that he will vote against this motion. He does not believe he has sufficient information, at this time, to evaluate these programs and to be able to say in aggregate there should be an increase that reflects the cost of living. He understands it is difficult to measure the true value of many of these programs and whether they are actually economically justifiable. Something needs to be said here for the taxpayers; we need to keep a "sharper" pencil then to vote for a proposal that just allows an aggregate increase.

Representative Villa stated that he supports this motion and is concerned about the mixed priorities the Legislature will face during the next session. The needs of the state are great and the checkbook is limited. This motion gives the Administration and the practitioners the tools they need to convince the "naysayers" that are not convinced of the efficiencies and effectiveness that these programs do have. There has been between 3-5 Administration changes since some these programs were developed; each having to modernize their own systems within the state and respond to the needs of the economy. No Administration will implement or continue a program that is not responding to the needs of their electorate. This motion really speaks to an opportunity that we, as a Council and practitioners have, to effectively use tax payer dollars. These funds are allocated from interest from the Coal Tax Trust Fund and are not paid by taxpayer dollars. These funding levels were based on revenues made back in the 1980's.

Chairman Barrett called for a vote of the Council members to recommend an aggregate funding adjustment to catch-up with inflation. **Nine (9) members voted in favor; one (1) member voted in opposition and two (2) members abstained from voting. The MOTION PASSED.**

Smitham stated in order that we don't find ourselves in the same situation that the previous motion took action on in the future, he **MOVED** that the Council pass a motion for the Administration consider recommending to the Legislature to consider indexing the statutory appropriation for the programs to inflation so that future funding levels are equal to what is appropriate at the time of each Legislature so they don't keep falling behind. Bailey **SECONDS** the motion. With no further discussion from the Council, four **(4) members voted in favor; six (6) members voted in opposition and two (2) members abstained from voting. THE MOTION FAILED.**

Marchi said she would like this Advisory Council to consider giving the Montana Facility Finance Authority the authority to issue industrial development (small issue-\$20 million or less) bonds. Currently the Board of Investments has this authority but they do not do small issue bonds. **Chairman Barrett asked to place this issue on the agenda for the next Economic Development Advisory Council meeting.**

Chairman Barrett had to leave the meeting at this time.

Big Sky On The Big Screen Act

Betsy Baumgart, Director, distributed a handout entitled "Montana Film Productions – Since passage of the Big Sky on the Big Screen Act in May 2005" which outlined the numerous features (231 total productions) that have been filmed in the state since the passage of the Act. The direct impact equates to over \$19 million and the total economic impact equates to \$29 million of "new" dollars into the state creating 491 FTEs since its passage. The handout also included information on the 2007 Productions (feature, commercial, documentaries, still shoots, television, educational/industrial, short films and assists) produced in Montana. In 2006, filming grew 34% and in 2007 it grew another 12% so the legislation is working. So far, in 2008 they have noticed a record number of inquiries and they recently finished a film entitled "The Call of the Wild" based on Jack London's 1903 American classic that just filmed in Lincoln and in Phillipsburg which dropping over \$500,000 in those communities in the last two weeks. Baumgart reminded the Council that this program is also scheduled to sunset in 2010 and would appreciate this Council's support during the next Legislative session.

Smitham asked if the film industry is growing in light of the national economy. Baumgart does not have those statistics but she believes that since Montana continues to grow; nationally it continues to also grow. Nationally there are 34 states have film incentives or in Legislation to create it and only 2 states that do not have incentives which indicates it is a growing business that everyone wants a piece of.

Rudbach recommends placing the sunset of the Big Sky on the Big Screen Act on the agenda for the next meeting for further discussion and also recommend providing the necessary increase in Montana incentives to keep pace with neighboring states and Mexico.

NEW BUSINESS

None

OLD BUSINESS

Rudbach mentioned that during the last meeting, it was decided to re-activate the MicroBusiness of the Year awards. A subcommittee consisting of Tony Rudbach, Sheila Hogan, Jim Lee and Janice Wannebo was formed to score the nominations. The subcommittee decided to award the 2007 MicroBusiness of the Year to V-Trailers in Plentywood nominated by Great Northern Development Corporation. Rudbach noted that in the previous ceremonies the Governor was invited to present the award to the winners and he would like to conduct the ceremony in a similar fashion if the Governor's schedule allows. If feasible, this could be scheduled to coincide with the next Council meeting in June 2008.

Ness distributed handouts on "old business" items requested from the last meeting on the MicroBusiness Finance Program Administrative Rule amendments and letters sent to Flathead and Richland counties on the CRDC Program that Rudbach requested during the last meeting along with the Department's response to Representative Koopman's "Questions to Consider" handed out during the last meeting.

PUBLIC COMMENT

None

NEXT MEETING

Barrett had requested to have a June 2008 meeting prior to the end of the fiscal year. Wannebo will contact the Council members to determine the appropriate date to ensure a quorum.

ADJOURNMENT

The meeting adjourned at 3:35 p.m.



Respectfully Submitted